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Medicare Heading Toward Bankruptcy Faster, Sooner

Medicare Trust Fund Runs Deficit A Year Early

According to the Medicare trustees' 1995 report, Medicare's Hospital Insurance (HI) trust fund ***was supposed to begin*** deficit spending in fiscal year 1996, and continue in the red until bankruptcy after FY 2002. According to today's *New York Times*, which apparently based its report on an advance copy of FY95 actual numbers, that trust fund ***actually began*** running a deficit in the last fiscal year, wiping out a projected $4.7 billion surplus in the process.

In a classic understatement from an administration that has spent the last year trying to overstate the effects of making the trust fund solvent through the current generation of retirees using a Medi-scare campaign, Richard Foster, chief actuary of the Health Care Financing Administration (HCFA) — and source for the *New York Times* article — stated: *"Things turned out a little worse than we expected . . . We had projected that 1997 would be the first fiscal year with a deficit."*

Clearly, wiping out a projected $4.7 billion surplus is far more than "a little worse than we expected." This early report strongly indicates that the President's Medicare trustees were playing with fire and they knew it: they were wrong to base their estimates on the intermediate projections of their 1995 report but should have been using their own "high cost" scenario that shows the HI trust fund going bankrupt a year earlier than they had been reporting. Surely, now, the Clinton Administration should stop, in the words of the *Washington Post,* "demagoguing" the Medicare issue by low-balling the Medicare cost, and instead should start solving the Medicare crisis.

The 1995 Trustees' Report: Low-Balling and High-Tailing

On April 3, 1995 the Medicare trustees (five of seven of whom are Clinton appointees and three of whom are members of the Clinton cabinet) issued their report on the financial condition of the HI trust fund. The HI program was *"examined under three alternative sets of assumptions: low cost, intermediate, and high cost. The intermediate set of assumptions represents the Trustees' best estimate of the expected future economic and demographic trends that will affect the financial status of the program."* Their verdict was unequivocal: *"These projections clearly demonstrate that under a range of plausible economic and demographic assumptions the HI program is severely out of financial balance in the short range . . . The Trustees believe that prompt, effective, and decisive action is necessary."*

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As pessimistic as these statements sound, ***they were in fact optimistic***. In contrast to the projected spending for the last fiscal year which showed a $4.7 billion surplus, ***the actual spending showed a $36 million deficit.***

The stark contrast between estimate and reality in the last fiscal year raises some very disturbing issues. Did the Administration deliberately try to "low-ball" the severity of the HI program's financial condition in order to cover its failure to address the impending insolvency? If not, why then did they ignore the warnings of HCFA's own chief actuary:

> *"Although the assumptions used are reasonable, much of the available evidence suggests that they may not be optimal.* ***In particular, the likelihood of a future result that is more adverse than the intermediate projection may exceed the likelihood of a more favorable result. Similarly, an outcome more adverse than the high cost projection may be more probable than one that is better than the low cost projection."*** [Chief Actuary Foster, 1995 Trustees' report; emphasis added]

The HI program's economic assumptions should be downgraded and the 1995 intermediate cost scenario should be replaced with the more realistic 1995 high-cost assumption. Furthermore, the 1996 report — due in April — should discard the 1995 low-cost scenario, move the 1995 intermediate cost estimate to the 1996 low-cost estimate and the 1995 high-cost estimate to the 1996 intermediate estimate, and create a new high-cost estimate for 1996.

The Issue Is Solvency

The actual FY 1995 numbers project an even bleaker future for the HI trust fund than the already bleak one the Administration predicted. Yet, the Administration continues to avoid the problem. According to the White House's own estimator, OMB, the President's latest budget offer — although solvent longer than any of his four 1995 Medicare proposals — would still not keep the HI trust fund solvent through 2010 when the "baby boom" generation will begin collecting benefits. In contrast, all three of Congress' Medicare solvency proposals, including the one that the President vetoed, keep the HI program solvent into the next generation.

Regardless of whether the Administration deliberately tried to obscure the Medicare crisis, the fact remains that it is far worse than they predicted. According to their own now obviously more accurate scenario, the HI trust fund will be bankrupt in 2001, just five years from now. And yet, according to their own estimates, the Administration still has not produced a plan that will insure solvency for the current generation of retirees; instead the President vetoed one and rejected two other proposals that would.

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